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*The Public Service Commission
State of South Carolina*

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February 10, 2003

Honorable Gary E. Walsh
Executive Director
Public Service Commission of South Carolina
Post Office Drawer 11649
Columbia, SC 29211

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SC PUBLIC SERVICE COMMISSION

**RE: Docket No. 2000-366-A – Application of Chem-Nuclear Systems, LLC, a
division of GTS Duratek, Inc. for Adjustment in the Levels of Allowable Costs and
for Identification of Allowable Costs.**

Dear Mr. Walsh:

Pursuant to R.103-869 of the Commission's Rules and Regulations, I am herein enclosing the original and twenty-five (25) copies of the surrebuttal testimony intended to be offered by the one (1) witness for the Commission Staff in the above referenced proceeding. Copies of the testimony and exhibits are being served on the parties of record as per attached Certificate of Service.

If I may be of further assistance, please do not hesitate to contact me.

Sincerely,

F. David Butler
General Counsel

FDB/hha
Enclosures

cc: All Parties of Record

**BEFORE
THE PUBLIC SERVICE COMMISSION
OF
SOUTH CAROLINA**

DOCKET NO. 2000-366-A

IN THE MATTER OF:

Application of Chem-Nuclear Systems, LLC, a)	CERTIFICATE OF SERVICE
Division of GTS Duratek, Inc. for Adjustment)	(Via E-Mail Transmission and
in the Levels of Allowable Costs and for)	(U.S. Postal Service-First Class Mail)
Identification of Allowable Costs.)	

I, Hope H. Adams, do hereby certify that I have on the date indicated below served the following named individual(s) with one (1) copy of the pleading(s) listed below by e-mail transmission and U.S. First Class Mail with sufficient postage attached and return address clearly marked.

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**PLEADING(S): Surrebuttal Testimony of Commission Staff: William P. Blume, Manager,
Audit Department**

Legal Department
Public Service Commission of
South Carolina

By: 

Hope H. Adams

Columbia, South Carolina
February 10, 2003

POSTED
AW21003

01/11/03

***Application of
Chem-Nuclear Systems, LLC
A Division of GTS Duratek, Inc.
For
Adjustment in the Level of Allowable
Cost for June 30, 2002 and
Identification of Allowable Cost for June
30, 2003***

Docket No. 2000-366-A

***Surrebuttal Testimony of
William P. Blume
Audit Department***

PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

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1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.**

2 A. My name is William P. Blume. My business address is 101 Executive Center Drive,
3 Columbia, South Carolina. I am employed by the Public Service Commission of
4 South Carolina as an Audit Department Manager.

5 **Q. MR. BLUME, DID YOU FILE DIRECT TESTIMONY IN THIS**
6 **PROCEEDING?**

7 A. Yes I did.

8 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY IN**
9 **THIS PROCEEDING?**

10 A. The purpose of my surrebuttal testimony is to discuss certain issues addressed by Mr.
11 Regan A. Voit's rebuttal testimony as it relates to issues I addressed in my direct
12 testimony in this proceeding.

13 **Q. WHAT ARE THOSE ISSUES ADDRESSED BY MR. VOIT?**

14 A. Mr. Voit addressed six issues. The first was the Staff's disallowance of the costs of
15 the Operations & Efficiency Plan (OEP). Next, he addressed the issue of operating
16 margin coverage for costs incurred in defending the Operating Rights issue in the
17 Company's last allowed cost proceeding. Third, Mr. Voit has taken issue with the
18 Commission Staff's adjustments to establish cubic foot rates for Direct and Indirect
19 Labor and Fringe Costs using the OEP as a guide. Fourth, Mr. Voit has taken
20 exception to the Staff eliminating labor costs associated with Full Time Equivalents
21 (FTE) using the OEP as a guide. Fifth, Mr. Voit has raised an issue to the Staff's
22 level of Insurance costs for the fiscal year ending June 30, 2003. Lastly, he has raised

1 the issue of the Staff's calculation of Indirect Labor in which the Staff eliminated
2 costs associated with this current hearing in determining the cost level.

3 **Q. ARE THOSE ALL OF THE ISSUES ADDRESSED IN MR. VOIT'S**
4 **REBUTTAL TESTIMONY?**

5 A. Yes, I believe so.

6 **Q. WILL YOU DISCUSS THE FIRST OF THESE ISSUES AND GIVE YOUR**
7 **POSITION ON THE MATTER?**

8 A. The first issue has to do with the cost of the OEP. The Company had paid
9 approximately a quarter of a million dollars for the Plan during fiscal year 2002 and
10 is requesting reimbursement for this cost. However, even though the Company has
11 paid for the cost of the Plan, the Staff does not believe that the Company should be
12 reimbursed at this time. There should not be costs reimbursement until the Plan has
13 been presented to the Commission, testimony has been given explaining the Plan and
14 how it was developed, and other parties are also given the opportunity to cross-
15 examine witnesses presenting the Plan. Further, the Commission should be allowed
16 to ask questions concerning the Plan. Without this process, the Plan would be paid
17 for, yet it would not be given full regulatory scrutiny. All of this is in my pre-filed
18 direct testimony.

19 As a result of Mr. Voit's rebuttal testimony, I feel that another reason to withhold
20 reimbursement has been presented. Mr. Voit speaks a number of times in his rebuttal
21 testimony about the problem of using the OEP to determine allowable costs for fiscal
22 year 2003. He speaks about validating the Plan. This seems a little "odd" to now tell

1 the Commission that the Plan needs to be validated. The Company spent a quarter of
2 a million dollars for a Plan that was designed using their Company's labor force,
3 work methods and the Company's own cost figures. It has been developed and filed
4 as ordered by the Commission in Order #2001-499. To my knowledge, no one has
5 ever stated this problem to me before.

6 The Plan was filed by the Company and the Staff felt it to be Company specific,
7 outlining cost categories, FTE requirements at various levels of expected waste, costs
8 breakdowns from 2003 through 2009 giving maximum levels, expected levels and
9 minimum levels of operations. Apparently, the Company wants the Plan to be used
10 for costs reimbursement in this case and nothing else.

11 On page 5, starting on line 15, Mr. Voit's rebuttal testimony discusses the Staff's
12 alleged misunderstanding of the agreement between the Company and the other
13 parties in this particular case. He refers to the use of the words, "tabled by agreement
14 of several parties." The Staff does not understand what problem this may have for the
15 Company. The American Heritage Dictionary defines tabling as "to postpone
16 consideration." Mr. Voit's rebuttal testimony, on page 5, starting on line 20, states
17 this exact wording when he says "We propose and agreed to defer presentation of
18 evidence providing a substantive review of the numerous and complex issues and
19 recommendations in the OEP.....". By definition, this would seem to imply the issue
20 was tabled for this proceeding, which is all the Staff is saying in its direct testimony.

21 I believe Mr. Voit's own rebuttal testimony has only strengthened the Staff's position
22 on this matter. His admitting that the Plan requires actual numbers in order to

1 validate it points out the problems facing this Commission on this issue. Apparently,
2 Mr. Voit would have the Commission reimburse the Company for these costs, when
3 there is absolutely no evidence as to the validity of this Plan and no witness has come
4 forward to defend the development of it. Mr. Voit certainly is not an expert witness
5 on the Plan and cannot testify to it. Only Project Time and Costs personnel who
6 develop the Plan can do this. The Staff is not moved to change its position on this
7 matter at this time.

8 **Q. WOULD YOU NOW DISCUSS THE ISSUE OF OPERATING MARGIN OF**
9 **29% AND THE COSTS ASSOCIATED WITH THE DEFENSE OF THE**
10 **OPERATING RIGHTS IN THE LAST PROCEEDING?**

11 A. As a result of a settlement among the parties to the previous proceeding, the
12 Commission allowed cost coverage for Operating Rights totaling \$625,000 on an
13 annual basis. Additionally, the Commission did not allow for operating margin
14 coverage on Operating Rights reimbursement.

15 The Company is now requesting that it be allowed operating margin treatment on the
16 costs incurred as a result of its defense of this issue. In my direct testimony and
17 exhibits filed for this proceeding, the Staff disallowed 29% operating margin on this
18 cost, which totals \$42,339.

19 **Q. WOULD YOU NOW DISCUSS STAFF'S POSITION ON THIS ISSUE?**

20 A. The Staff is following a simple accounting theory that matches costs with the cost
21 causer. These costs would not have been incurred if the issue of Operating Rights had
22 not been made a part of this Company's issues. Due to this, the Staff is of the opinion

1 that such costs should be reimbursed as a legitimate cost but at the same time it
2 should be treated identically as the causer of the costs, the Operating Rights. The
3 Rights are not entitled to margin treatment and neither should the costs to defend that
4 position in the opinion of Staff. I see nothing inappropriate about this stance and
5 believe it is consistent with the evidence.

6 **Q. WOULD YOU NOW DISCUSS YOUR POSITION ON USING THE OEP FOR**
7 **THE SETTING OF LABOR AND FRINGE RATES FOR BOTH DIRECT**
8 **AND INDIRECT COSTS?**

9 A. Mr. Voit has discussed his concerns of using the OEP for the setting of labor and
10 fringe rates which the Staff did in its exhibits and my direct testimony. He has
11 detailed his concerns such as being premature for use, lack of actual data, need for
12 validation of the Plan and the need to determine accurate numbers, which he relates
13 to the Company's ground water model.

14 **Q. DO YOU AGREE WITH HIS CONCERNS?**

15 A. Some of them, although this agreement does not change Staff's conclusion on this
16 matter. First his questioning of the use of actual data is not completely correct. The
17 Staff used actual costs for the fiscal years 2002 and 2001 in making its adjustments.
18 In addition, we made use of the Staff's allowable costs for 2003, which would have
19 some estimates.

20 **Q. HOW DID YOU USE THE PLAN?**

1 A. The Staff used the Plan as a guide only. The Plan had developed percentages of costs
2 as they related to categories of costs, such as waste dependent, semi-variable, and
3 fixed. These were used by the Staff in the determination of categories.

4 Next we made use of FTE levels as presented in the Plan; however the Staff did
5 calculate its own FTE hourly level using the Company's actual disposal labor costs
6 and hours for June 30, 2002. I felt this was far more accurate and is based on actual
7 costs and payroll information provided by the Company.

8 Staff also used the Plan's three scenarios as detailed in the Plan for guidance in
9 selecting a level of possible activity for waste. Since our audit and information
10 provided to us by the Company indicated a level of expected waste similar to the
11 fiscal year 2002, the Staff used the "most likely" scenario from the Plan to develop
12 waste levels.

13 Finally, the Staff used the method described in the Plan for determining semi-
14 variable costs.

15 These were the only parts of the OEP used by the Staff in determining its labor and
16 fringe rates for direct and indirect costs.

17 **Q. WOULD YOU LIKE TO COMMENT ON MR. VOIT'S REBUTTAL**
18 **TESTIMONY AS IT RELATES TO LABOR COSTS PER FOOT OF WASTE**
19 **RECEIVED AND BURIED?**

20 A. Yes. On page 11 starting on line 20, Mr. Voit attempts to relate rates per cubic foot of
21 waste to both waste rates for Classes A, B, C, and Slit Trench to Staff's labor and
22 fringe rates per cubic foot. These are two separate and completely different issues.

Staff has always acknowledged in previous cases that variable cost rates for vault and trench amortization will depend on the mix and class of waste received. Waste received cannot be controlled by the Company.

However, labor is a completely different matter. The Company has complete control over labor costs and the expensing of these costs. This control cannot be ignored. Setting labor rates are different than vault and trench amortization rates. Mr. Voit is not correct in the assumption that the two are similar.

Q. WHY DID THE STAFF USE THE OEP FOR GUIDANCE?

A. I almost want to say "why not?" It was filed at the Commission and the Staff was of the opinion it could be used to aid in the development of certain costs, such as waste dependent and semi-variable costs. These types of costs have been the subject of many questions for every party in this case. It was one of the reasons the Plan was ordered to be developed, so I made what use of it I felt I could.

Q. WOULD YOU DO THE SAME THING AGAIN CONSIDERING ALL OF THE REBUTTAL TESTIMONY AND ISSUES BEING RAISED?

A. Yes, I would. Frankly, I am a little surprised by all of the controversy the use of the Plan for setting allowed costs for fiscal 2003 has raised. The Plan appears to very straight forward in the identification of costs categories and FTE levels. It really never occurred to me that my use would create such a "fire storm". After all, this, in my mind, was one of the major reasons for the Plan to be developed. It is Company specific, used the company's labor and costs as a guide to develop and was supposedly performed by a reputable firm. We will always be developing costs with

1 the future in mind when setting allowable costs for the next year. These costs will be
2 estimates in some form or another, even though they will be based on the best
3 information available at the time. The matter of cubic feet is always going to be a
4 question since no one can safely predict future waste levels, only maximum levels.

5 **Q. ARE THE REASONS RAISED BY MR. VOIT VALID REASONS FOR NOT**
6 **USING THE PLAN TO ESTIMATE COSTS ALLOWED FOR 2003?**

7 **A.** I do not believe this is the case. I feel it needs to be used even if only as a guide for
8 the future.

9 **Q. AS A RESULT OF MR. VOIT'S REBUTTAL TESTIMONY, DO YOU HAVE**
10 **A SUGGESTION YOU MAY WISH TO MAKE CONCERN THE USE OF**
11 **THE PLAN IN DEVELOPING COSTS FOR 2003?**

12 **A.** Yes. As a part of my prefiled exhibits and testimony, I presented both fiscal year
13 allowed costs for 2003 using both the OEP and not making use of the OEP. It would
14 appear to me that the Commission could allow cost coverage for fiscal year 2003
15 using the costs determined by the Staff in Staff's Exhibit AA-2, without OEP Plan,
16 while establishing the costs shown in Staff's Exhibit AA-1 using the OEP as a guide
17 only to validate actual costs filed for fiscal year 2003. I am just presenting this idea
18 even though I really believe my costs using the OEP are consistent with the data
19 presented in the Plan. This move would seem to be a position that may possibly
20 satisfy both the Company and Staff for this proceeding. If it is so desired, the
21 Commission could then allow partial compensation for the Plan, as addressed in my
22 direct testimony.

1 **Q. WOULD YOU NOW DISCUSS THE FULL TIME EQUIVALENTS (FTE)**
2 **ISSUE RAISED BY MR VOIT?**

3 **A.** Certainly. The Staff used the FTE levels presented in the Plan. The issue of levels of
4 needed employees charging costs to the disposal operations has been an issue in all
5 of the previous cases. This case is no different.

6 I believe it is necessary to take a long look at FTE levels and to make use of the Plan
7 as a guide in determining allowable labor and fringe costs.

8 In fiscal year 2001, the Company received and buried some 125,000 cubic feet of
9 waste. In 2002, that level of waste dropped to a level of approximately 57,000 cubic
10 feet of waste received and buried. Labor costs remained almost identical when
11 comparing the two years. This is the reason I feel the FTE levels presented in the
12 Plan are important.

13 Staff, as stated earlier in surrebuttal testimony, used actual labor costs, hours for
14 disposal operations, and fiscal year end employee levels to determine its FTE hourly
15 level. The Staff used the level of FTE's presented in the Plan for 59,000 cubic feet of
16 waste and determined that the Staff needed to propose a reduction in FTE's, which
17 we did. Using average labor costs, the Staff eliminated three and a half FTE's from
18 allowed cost levels for fiscal year ending 2003.

19 There were no estimates other than the assumptions that the level of waste will be
20 consistent with the fiscal year 2002 and the Plan can be relied upon when it
21 calculated a level of FTE's for the Company.

I would also like to discuss the comment made by Mr. Voit concerning the possible layoffs of employees if the Commission reduces labor costs for the Company. I do not recommend layoffs and never would, but I would like to point out that the Plan speaks to this issue on three separate occasions.

On pages 26 of 31, 27 of 31 and 29 of 31, the Plan discusses the use of the work force of Chem Nuclear. The Plan states labor should be redirected to other waste operations when waste levels are not arriving at the site and also a plan between the State and Chem Nuclear should be developed to begin closure activities concurrent with Disposal Operations in order that the Company can maintain a balanced work force.

I feel this issue needs to be pursued by the Company in order that the work force issue can be contained and a well trained work force can be kept on site through 2009.

Q. WOULD YOU CARE TO DISCUSS THE ISSUE OF INSURANCE COSTS ALLOWED FOR FISCAL YEAR 2003?

A. The Staff used information made available to it in determining that insurance costs needed to be increased for fiscal year 2003. The Staff did so by adjusting for a thirty percent increase in overall insurance costs.

Mr. Voit, in his rebuttal testimony, is stating that our increase is not enough and that insurance cost needs to be increased to a level equaling \$687,248.

Staff's increase was based on information available at the time of our audit. I have not had the opportunity to review the information Mr. Voit is using to make his request.

1 However, this would not appear to be a problem. In fiscal year ending 2002,
2 Insurance cost was greater than that allowed by the Commission in the previous
3 Commission Order #2002-395. The Staff, based on information made available to it
4 during our audit, agreed that such excess costs should be reimbursed to the Company.
5 My own direct testimony discussed the area of insurance cost and how Staff felt the
6 cost for fiscal year 2003 may be higher than that recommended by the Staff.

7 If this does occur in 2003, and it may, the Staff certainly would have no problem
8 allowing cost coverage as long as the excess cost can be verified to necessary
9 documents provided to the Staff by the Company.

10 This would appear to answer Mr. Voit's concerns about the Company's insurance
11 cost for fiscal year 2003.

12 **Q. THE LAST ISSUE POSED BY MR. VOIT CONCERNED THE STAFF'S**
13 **ELIMINATION OF INDIRECT LABOR COST ASSOCIATED WITH THE**
14 **PRESENT HEARING. WOULD YOU CARE TO COMMENT ON THIS**
15 **MATTER?**

16 **A.** To me, this is one of those small matters has apparently created controversy. I did not
17 ever say I would oppose costs the Company incurs for this hearing. I know there will
18 be costs but do not feel there is enough evidence to determine the amount at this
19 time.

20 This hearing is unlike any of the previous ones. In each of the prior two hearings,
21 there was a great deal of intervention and a large number of documents that the
22 Company had to file for the hearing to take place. In addition, a number of exhibits

1 and information were required of the Company for support of the issues such as
2 Operating Rights and legal fees paid to a Utah law firm.

3 Due to the agreement concerning the OEP and the lack of information that has been
4 requested by parties to the case, cost should be much lower than in the previous two
5 hearings. The Staff is of the opinion it would be more advisable to wait until the audit
6 for 2003 fiscal year costs to determine the allowed amount for hearing costs
7 associated with this proceeding.

8 I do not believe I have ever said that I would not support the Company's request for
9 coverage of these particular costs. I was of the opinion that this would be a far fairer
10 approach to take for the next excess cost proceeding and not just make an adjustment
11 based on an arbitrary amount of dollars.

12 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

13 **A.** Yes it does.
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